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TREASURY FOR OASIA - GIANLUCA SIGNORELLI
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SUBJECT: VENEZUELA MACROECONOMIC UPDATE

OVERVIEW

1. (U) Venezuela's most recently published economic indicators illustrate the negative effects of deep recession, exchange and price controls, and chronic fiscal deficits. Strong international reserves position and high average oil prices have contributed to reduce the country risk and facilitated the partial public external debt refinancing. However, the current political uncertainty is affecting the economic decision-making for both the private and public sectors. NOTE: Most official data reported here does not include Q1 of 2004.

ECONOMIC GROWTH

2. (U) Total GDP decreased 9.2 percent in real terms during 2003 compared with the previous year. This figure was the steepest decline in Venezuelan history. The hardest-hit sectors were construction (-37.4 percent), commerce (-12.0 percent), petroleum (-10.7 percent), and manufacturing (-10.6 percent). During the last quarter of 2003, Venezuela registered a GDP increase of 9 percent after seven consecutive quarters of economic recession. A recovery is foreseen during 2004 after two consecutive years of severe economic contraction.

REAL GDP GROWTH RATE
(PERCENTAGE)

	OIL	NON-OIL	TOTAL
1994	4.6	(4.5)	(2.8)
1995	7.1	2.5	4.0
1996	7.7	(2.5)	(0.2)
1997	9.4	4.2	6.4
1998	2.0	(0.9)	0.2
1999	(7.4)	(5.4)	(6.1)
2000	3.2	3.0	3.2
2001	(0.9)	4.0	2.8
2002	(12.6)	(6.5)	(8.9)
2003(1)	(10.7)	(8.0)	(9.2)

(1) Preliminary figures

SOURCE: Central Bank of Venezuela.

UNEMPLOYMENT

3. (U) Second semester 2003 figures (the latest published as of April 28, 2004) from the National Institute of Statistics (INE) indicate an unemployment rate of 16.8 percent. This figure represents 2.01 million unemployed out of a labor force of 12.01 million, and a total population of 25.63 million. Shifts in the work force from the formal to the informal sector of the economy, which accounts for more than a half of the occupied working labor force, have mitigated unemployment to some extent. However, some economists suggest that the informal sector may have reached its capacity to absorb new entrants.

UNEMPLOYMENT (percentage in second semester)

1996	12.4
1997	10.6
1998	11.0
1999	14.5
2000	13.2
2001	12.8
2002	16.2
2003	16.8

SOURCE: GOV National Institute of Statistics (INE).

OIL PRODUCTION AND EXPORTS

14. (U) Oil production and export reductions during 2003 were partially offset by the increase in the average export price during the year. The total value of oil exports reached USD 20.8 billion in 2003 with an average export price of USD 25.7 per barrel. Venezuela's OPEC production quota is 2.704 million barrels a day starting on April 1, 2004. Oil prices have been increasing during 2004, reaching a record high of USD 30.9 per barrel during the last week of March.

OIL PRODUCTION AND EXPORTS (THOUSAND B/D)

			AVERAGE EXPORT PRICE (USD/B)	EXPORTS (USD MILLION)
	PRODUCTION(2)	EXPORTS		
1996	2,984	2,752	18.4	18,523
1997	3,248	3,052	16.3	18,180
1998	3,279	3,116	10.6	12,111
1999	2,950	2,785	16.0	16,419
2000	3,060	2,791	25.9	27,884
2001	3,044	2,711	20.2	21,574
2002	2,567	2,432	22.0	21,530
2003 (3)	2,330	1,963	25.7	20,831

(2) Crude oil, including condensates.

(3) Preliminary figures.

SOURCE: Central Bank of Venezuela, and private sector estimates.

MONEY SUPPLY/M2

15. (U) Monetary liquidity increased 57.5 percent during 2003, largely as a result of exchange controls. This the highest money supply annual increase of the last six years. Most of the excess liquidity accumulated in the economy during these months was withdrawn by the BCV by allocating government bonds and certificates of deposits to domestic banks. Liquidity could continue to grow during the first half of 2004 because of the expected government expenditure increase.

MONEY SUPPLY/M2 (4) MONETARY BASE

End of: (million Bs.) Pct.Chg. (million Bs.) Pct.Chg.

1996	5,493,813	55.4	1,675,799	92.1
1997	8,956,161	63.0	3,004,685	79.3
1998	10,621,645	18.6	3,717,323	23.7
1999	12,740,836	20.0	4,909,822	32.1
2000	16,284,578	27.8	5,790,841	17.9
2001	16,976,364	4.2	6,478,295	11.9
2002	19,573,369	15.3	7,701,120	18.9
2003	30,835,975	57.5	11,274,439	46.4

2004 (5)

JAN	30,279,535	(1.8)	10,752,425	(4.6)
FEB	31,815,818	5.1	10,762,152	0.1
MAR	32,311,341	1.6	13,219,845	22.8

(4) M2 includes currency, demand deposits, savings and certificates of deposit.

(5) Preliminary figures.

SOURCE: Central Bank of Venezuela.

CONSUMER PRICE INDEX

16. (U) The Central Bank of Venezuela (BCV) reported that consumer prices for the Caracas metropolitan area rose 21.9 percent from February 2003 to February 2004. Consumer prices lagged producer prices, however, as wholesale prices increased by 36.7 percent during the same period. (Note: The GOV imposed price controls February 11, 2003 on some primary

food items, pharmaceuticals, and personal care products as a complement to the exchange control regime.)

CONSUMER PRICE INDEX (1997 AVG =100)

	END OF PERIOD	PCT CHANGE
1992	10.7	31.9
1993	15.6	45.8

1994	26.6	70.5
1995	41.6	56.4
1996	84.6	103.2
1997	116.5	37.6
1998	151.3	29.9
1999	181.6	20.0
2000	206.0	13.4
2001	231.3	12.3
2002	303.5	31.2
2003	385.7	27.1
2004		
JAN	395.4	2.5
FEB	401.6	1.6
MAR	410.2	2.1

SOURCE: Central Bank of Venezuela.

INTEREST RATES

17. (U) Interest rates reported by the Central Bank in 2004 continue the downward trend of 2003. Weak credit demand and excess liquidity because of the strict application of exchange controls were the most important causes of this trend. The spread between lending and deposit rates decreased from 6.59 percent in January 2004 to 4.72 percent in March 2004.

AVERAGE INTEREST RATES OF THE SIX MOST IMPORTANT COMMERCIAL AND UNIVERSAL BANKS

	Loans	Deposits	
		Savings	90 days
1996	37.22	18.36	26.85
1997	22.16	6.84	14.62
1998	45.21	10.25	38.02
1999	31.89	7.05	18.90
2000	23.91	3.35	14.80
2001	25.64	2.40	14.13
2002	37.08	3.90	28.29
2003	24.05	6.17	17.58
2004			
JAN	18.38	5.19	11.79
FEB	18.08	4.54	10.84
MAR	17.56	4.56	12.84

SOURCE: Central Bank of Venezuela.

EXCHANGE RATE

18. (U) The exchange control system pegged the bolivar at 1,600/USD on February 5, 2003. One year later, on February 5, 2004, the Ministry of Finance and the Central Bank devalued the Bolivar 20 percent, to 1,920.00. A National Exchange Control Administration (CADIVI) oversees all official foreign exchange transactions. CADIVI's heavy bureaucratic burden on official exchange, Venezuela's dependence on imported food and manufactured goods, and the petroleum sector's need for access to dollars have resulted in the official exchange rate being overvalued again. The parallel market exchange rate closed at around 3,100/USD at the end of March 2004.

ANNUAL AND MONTHLY EXCHANGE RATES (SELL RATE) (BS/USD)

	END OF PERIOD	AVERAGE	AVERAGE PCT CHANGE
1996	476.50	417.34	136.1
1997	504.25	488.59	17.0
1998	564.50	547.55	12.1
1999	648.25	605.70	10.6
2000	699.75	679.93	12.3
2001	763.00	723.67	6.4
2002	1,401.25	1,160.95	60.4
2003	1,600.00	1,608.63	38.6
2004			
JAN	1,600.00	1,600.00	-0.5
FEB	1,920.00	1,825.88	14.1
MAR	1,920.00	1,920.00	0.0

SOURCE: Central Bank of Venezuela.

MERCHANDISE TRADE BALANCE

19. (U) Non-oil exports decreased 4.0 percent to USD 4.92 billion during 2003 compared with 2002. According to the INE, exports of base metals (aluminum, steel, iron, etc.) accounted for 37.9 percent of total non-oil exports for the period, followed by mineral products (19.5 percent), and chemicals (15.8 percent). The United States was the largest recipient of Venezuela's non-oil exports (40.5 percent), followed by Colombia (11.9 percent), and Mexico (6.4 percent). Imports decreased by 21.4 percent during 2003, largely because of the imposition of exchange controls.

MERCHANDISE TRADE BALANCE (USD MILLION)

	2002	2003 (6)
OIL EXPORTS (A)	21,530	20,831
NON-OIL EXPORTS (B)	5,126	4,919
TOTAL EXPORTS (C)	26,656	25,750
TOTAL IMPORTS (D)	(13,622)	(10,707)
MERCHANDISE TRADE BALANCE (C)-(D)	13,034	15,043

(6) Preliminary figures.

SOURCE: Central Bank of Venezuela.

BALANCE OF PAYMENTS

10. (U) Venezuela's balance of payments registered a surplus of USD 5.44 billion during 2003, compared with a deficit of approximately USD 4.43 billion during 2002. Exchange controls and the resulting fall in imports and capital flight have contributed in Venezuela's shift from net debtor to net creditor.

BALANCE OF PAYMENTS SUMMARY (USD MILLION)

	2002	2003(7)
CURRENT ACCOUNT (A)	7,423	9,624
EXPORTS, FOB	26,656	25,750
IMPORTS, FOB	(13,622)	(10,707)
TRADE BALANCE	13,034	15,043
NET SERVICES AND RENT	(5,446)	(5,417)
NET TRANSFERS	(165)	(2)
CAPITAL AND FINANCIAL ACCOUNT (B)	(9,365)	(3,171)
DIRECT INVESTMENT	(241)	1,388
PORTFOLIO INVESTMENT	(2,304)	(1,060)
OTHER INVESTMENT	(6,820)	(3,499)
NET ERRORS AND OMISSIONS (C)	(2,485)	(1,010)
OVERALL BALANCE (A)+(B)+(C)	(4,427)	5,443

(7) Preliminary figures.

SOURCE: Central Bank of Venezuela.

INTERNATIONAL RESERVES

11. (U) BCV-held international reserves have been increasing continuously since the exchange controls were imposed in February 2003. Reserves are currently 53.6 percent above their levels one year ago, as foreign exchange transactions remain suppressed. Of the total amount of reserves (USD 23.3 billion) at the end of March 2004, around USD 4.6 billion (or 19.7 percent) were in monetary gold.

INTERNATIONAL RESERVES (USD MILLIONS)

	BCV	FIEM	TOTAL
1996 DEC	15,229	-	15,229
1997 DEC	17,818	-	17,818
1998 DEC	14,849	-	14,849
1999 DEC	15,164	215	15,379
2000 DEC	15,883	4,588	20,471
2001 DEC	12,296	6,227	18,523
2002 DEC	12,003	2,857	14,860
2003 DEC	20,666	700	21,366
2004 JAN	21,588	701	22,289

FEB	21,906	702	22,608
MAR	22,560	702	23,262

SOURCE: Central Bank of Venezuela.

CENTRAL GOVERNMENT FINANCIAL RESULTS

112. (U) The fiscal deficit increased as the government spent more than expected during 2003, particularly in the fourth quarter. The most important sources of non-oil income were the value added tax, the income tax, the Central Bank profits, and the bank debit tax. The economic recession affected the other non-oil incomes such as customs revenues. The 2003 fiscal deficit was mostly financed with domestic debt facilitated by the excess liquidity in the financial sector due to the exchange controls that were imposed in February.

CENTRAL GOVERNMENT FINANCIAL RESULTS
(as a percentage of GDP)

	2002	2003
TOTAL REVENUES	20.5	22.7
Oil income	10.0	11.1
Non-oil income	10.5	11.6
TOTAL EXPENDITURES	25.3	28.5
FISCAL DEFICIT	(4.8)	(5.8)

Source: BCV

PUBLIC SECTOR DEBT

113. (U) The government was actively refinancing its domestic and external debts during 2003. Domestic bonds and treasury promissory notes dramatically increased both in the share of domestic banks' portfolio holdings and in the share of the GOV's debt. During March 2004, the Ministry of Finance allocated bonds for the equivalent of USD 3.0 billion, of

which one third were USD denominated with maturity in six months, while the rest were in local currency with maturities in 2008, 2009, and 2010.

PUBLIC SECTOR DEBT (USD BILLION)

	2002	2003(8)
FOREIGN DEBT	22.5	22.8
CENTRAL GOVERNMENT	20.8	21.5
RESTRUCTURED DEBT	8.0	8.3
NON-RESTRUCTURED DEBT	12.8	13.2
AGENCIES	1.7	1.3
DOMESTIC DEBT	11.0	14.1
TOTAL PUBLIC SECTOR DEBT	33.5	36.9

(8) Preliminary figures.

SOURCES: Ministry of Finance, BBVA Banco Provincial, and Embassy's estimates.

BANKING SYSTEM

114. (U) Recession and low consumer confidence have depressed credit demand. The percentage of net loans to total deposits decreased from 54.46 percent in December 2002 to 32.69 in February 2004. The contraction of the economy during 2003 also affected debtors' ability to pay. The percentage of past due loans increased from December 2003 to February 2004. This figure is lower than a year before, as banks have been cleaning up their credit portfolios, declaring more of the past due loans as outright losses.

BANKING SYSTEM KEY INDICATORS
(percentages)

	DEC 02	DEC 03	FEB 04
Past due loans/ gross loans	6.76	4.47	4.81

Credit portfolio allowance/

past due loans	132.64	179.50	174.61
Equity/total assets	16.08	14.44	14.64
Net financial margin/ average asset	5.32	6.19	7.79
Net financial margin/ average equity	35.65	43.95	55.93
Net loans/ total deposits	54.46	36.33	32.69

Source: SUDEBAN

----- DIRECT FOREIGN INVESTMENT -----

15. (U) New direct foreign investment registered during 2003 increased to USD 1,174.2 million. Much of this influx was a result of major foreign investment in Venezuelan telecom giant CANTV.

DIRECT FOREIGN INVESTMENT(9) (MILLIONS OF USD) -----

1996	1,114.4
1997	690.1
1998	1,583.8 (10)
1999	985.4
2000	642.9
2001	948.1
2002	297.0
2003	1,174.2 (11)

(9) Includes investment in the hydrocarbon, petrochemical, mining and natural gas sectors.

(10) Privatization of state steel company (SIDOR).

(11) This high figure consists largely of investments in former state-owned telecoms giant CANTV, made in 1996, but for technical reasons only registered by the GOV in 2003.

SOURCES: SIEX, CONAPRI, and Metroeconomica.

----- CARACAS STOCK EXCHANGE INDEX -----

16. (U) The Caracas Stock Exchange (CSE) index closed at a record high of 26,579.69 at the end of March 2004, increasing 19.7 percent from its close in December. The index increased 212.5 percent from its level in March 2003. A primary catalyst in this rise is the use of CSE shares to acquire American Depositary Receipts on the New York Stock Exchange that are then used as foreign exchange vehicles. However, the CSE has also benefited from the lack of other investment opportunities in the broader economy.

CARACAS STOCK EXCHANGE CAPITALIZATION INDEX (DECEMBER 1993 = 1,000) -----

	2002	2003	2004
JANUARY	6,293.89	8,286.65	27,956.14
FEBRUARY	6,958.39	8,509.56	27,348.36
MARCH	6,828.04	8,506.59	26,579.69
APRIL	6,712.57	8,631.60	
MAY	7,422.64	12,799.62	
JUNE	7,452.09	13,666.40	
JULY	7,134.00	14,052.35	
AUGUST	6,793.30	14,497.20	
SEPTEMBER	7,447.71	16,956.29	
OCTOBER	7,741.81	20,413.00	
NOVEMBER	8,015.17	21,397.36	
DECEMBER	(12)	22,203.95	

(12) The CSE was closed during December 2002 because of the general strike.

SOURCE: Caracas Stock Exchange and Metroeconomica.

----- INTERNET RESOURCES -----

17. INTERNET RESOURCES:

AMEMBASSY CARACAS WEBSITE: www.embajadausa.org.ve

EXCHANGE RATES AND INTERNATIONAL RESERVES: www.bcv.org.ve

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STOCK EXCHANGE: www.caracasstock.com
-
TRADE AND LABOR FORCE STATISTICS: www.ine.gov.ve
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BUSINESS INFORMATION: www.venamcham.org
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INVESTMENT OPPORTUNITIES: www.conapri.org
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